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UNCLAS SECTION 01 OF 03 KINGSTON 001042

SIPDIS

STATE FOR WHA/CAR (BENT) AND EB/TRD (MATTINGLEY)

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [JM](#)

SUBJECT: BITTER PROSPECTS FOR JAMAICAN SUGAR INDUSTRY

REF: BRIDGETOWN 785

SUMMARY

¶11. (U) The sugar industry is on the decline in Jamaica, suffering one of the worst years on record in the 2004-2005 season. Damaged by extreme weather, hampered by inefficiency and labor disputes, the industry will most likely not meet its production targets for this year. To make matters worse, the European Union will be reducing its guaranteed price for sugar by 37 percent over the next three years, forcing the "brown gold" industry that once formed the centerpiece of the Jamaican economy to finally come to terms with the need to adapt or perish. Industry insiders continue to insist that sugar can survive by focusing on value added products, implementing greater mechanization, improving land management and entering the energy sector. Other observers are more skeptical, noting that there has been talk about reform in the past, but precious little action. In the long run, it appears that Jamaican sugar is unlikely to return to its long-ago glory as the driving force in the island's economy.
End Summary.

HISTORY

¶12. (SBU) While sugar has been the dominant crop in Jamaica for centuries, providing a significant percentage of its foreign exchange, the industry has been in a gradual decline since its heyday in the late 1700s, when the profits brought in by sugar exports were at their peak in real terms (adjusted for inflation). The end of the slave economy in 1838 and competition from European beet sugar in the 1800s forced Jamaica to diversify its economy, though "brown gold" remained a centerpiece of its agricultural sector. After independence in 1962, annual output fell from 515,000 tons in 1965 to 193,000 in 1984, and to 153,000 tons in 2003. Whereas the industry once employed 18 percent of the island's total work force, only 40,000 now work the cane fields and refineries. On March 14, Karl James, General Manager of Jamaica Cane Products Sales, told emboff that the industry is also aging, as young people no longer see a future in cane and are reluctant to enter the industry.

¶13. (U) Studies have found that many factors contributed to the decline of sugar, including an overall drop in the world market price due to globalization, a drop in real prices when adjusted for inflation, the elimination of traditional one-way preferential trading agreements, funding constraints, inadequate crop rotation - leading to decreasing yields per hectare, crop damage from fire and livestock predations, soil depletion, lowered quality standards, poor maintenance, low productivity, bad debt, mismanagement, and aging, inefficient factories. Eleven mills have closed their doors since 1996, leaving only seven to process the cane. Both a GOJ parliamentary committee and the University of the West Indies conducted studies of the sugar industry in 2001, with the GOJ report finding that the industry could be saved in the short term with an infusion of JD three billion, though significant structural changes would be needed to survive in the long term.

¶14. (SBU) James said he attributes much of the industry's productivity decline to poor management under GOJ control. At the peak of production in 1965, the industry was completely privatized. In a de-facto re-nationalization of the industry, price controls introduced by the GOJ in the 1970s drove out many private sector owners, and the government took control of the unprofitable plants to "rescue" the workers. James claims that the cooperatives were inefficiently run by GOJ appointed managers, causing productivity to decline substantially.

¶15. (SBU) On March 11, Howard Brown, an agronomist with the St. Thomas Sugar Company, told emboff that poor land stewardship has also affected the cane output levels. Jamaican cane farmers generally do not use fertilizer, insecticide or crop rotation techniques, and the soil is becoming exhausted. The majority of the farmers have small operations, and their profits from one season are mostly consumed paying for the following year's harvest. Since the

cane re-grows like a weed following harvest, the farmers have traditionally relied on natural regeneration, rather than spending money on soil quality maintenance or modern re-planting techniques.

PRICE SUPPORTS

16. (U) Since independence, Jamaican sugar has enjoyed preferential access to the European Union market, where it is guaranteed prices much higher than those paid on the world market. With the recent reforms in the EU's agricultural policies, however, the prices offered by Jamaica's primary export market will drop by 37 percent between 2005 and 2008.

17. (U) Though the GOJ initially lobbied the EU to maintain the current price levels, it met with little success. On February 16th, Agriculture Minister Roger Clarke instructed sugar industry representatives to "prepare for the inevitable", telling them they would have to cope with the scheduled drop in the price offered by the EU for Jamaican sugar. The GOJ has traditionally backed its commitment to supporting the sugar industry. In 1999, the GOJ stated that it would not "get out of sugar" due to concern for the welfare of the workers in the industry, and spent JD 2.8 billion (USD 500 million) to enable the factories to begin working that season. In 2002, a further JD 3 billion (USD 500 million) was used to bail the industry out. Critics have charged that this amounted to an enrichment of large cane farmers with political ties at the expense of the taxpayers. (Note: Clarke himself is a cane farmer, and has strongly supported the industry in the past, so his statement is a significant indication that the GOJ does not plan to assist the industry with additional subsidies to make up for the European price decrease. End Note.)

18. (SBU) Brown told econoff that the industry would have a difficult time breaking even without the EU price supports. He held out hope for increased GOJ assistance in the form of loan guarantees in exchange for the sugar industry's political support. However, James and Delroy Armstrong, an agricultural economist with the Sugar Company of Jamaica, stated that the industry could not cut costs sufficiently to make raw sugar profitable. Instead, it would have to diversify into value-added products such as ethanol, molasses and refined sugar, and niche products like "organic" sugar. Through the Caribbean Basin Initiative agreement, he said, Jamaica has special access to the United States ethanol market, and could compete with larger producers on that basis. James expects that the primary consumers of Jamaican ethanol would be the domestic market, where it could replace up to 10 percent of the gasoline used on the island, meeting a demand of more than 15 million gallons per year.

FAILING TO MEET QUOTAS

19. (U) Though Jamaica has the opportunity to sell into the United States and EU markets up to the limit determined by a quota, declining productivity and factory closures have left Jamaica unable to meet its quotas consistently for the past two decades. In some years, the domestic supply has been short enough that food processors find it less expensive to import sugar from low-cost producers abroad, such as Brazil.

10. (U) The 2004-2005 season appears to be one of Jamaica's poorest to date. James said publicly on February 18th that the industry has so far produced only 12 percent of its targeted output for export since the grinding period began in December, less than half of what it produced in the same period in 2004. Only five of the remaining seven processing plants were in operation in January, with the remaining two not commencing with grinding operations until mid-March. Many factories are not even running a third shift, due to a recent wave of violent night time criminal attacks against cane workers. Despite these problems, James announced that the industry could meet its quota obligations before the end of the grinding season in July, and avoid paying a fine to the United Kingdom for missing its targets.

11. (SBU) However, on March 1st, Clarke contradicted James, stating that he does not expect the local sugar industry to meet its export quotas in 2005. He cited crop damage from the hurricanes that struck Jamaica in 2004 and delays in processing that have caused deterioration in the harvested cane. James told emboff that the current estimates do show that the target of 185,000 tons will not be reached, and that the official report due to be released in April will show whether or not the current season will fall short of the record low in 2003. Both Armstrong and Brown continued to express confidence that production would be close to target levels.

REMEDIES AND ALTERNATIVES

¶12. (SBU) Livingston Morrison, executive director of the Sugar Company of Jamaica, met with labor representatives on March 3rd. He said that further industry downsizing and factory closures were not the way to deal with the problems facing the industry. Rather, he addressed the industry's need to shift from production of raw sugar to value added products, such as rum, ethanol and molasses. He also called for an aggressive program of modernization and mechanization, which would improve efficiency and boost per-hectare yields. This call for expansion and modernization was echoed in statements made to econoff by James, Brown and Armstrong, who are awaiting the April release of a report to the Prime Minister outlining the sugar industry's options. Armstrong told emboff he expects the industry to be much more diversified into value-added products, with greater levels of automation and a substantially downsized workforce.

¶13. (SBU) The idea of converting the cropland currently under sugar cane cultivation to a higher-value product, such as sea-island cotton, has been discussed many times over the past two decades. However, according to Brown, most of the cane farmers are traditionalists who are carrying on a family tradition, and are extremely reluctant to risk switching to a new crop.

¶14. (U) The sugar factories are set up to generate some of their own electricity by burning processed cane husks to run on-site power plants. Though the current technology is somewhat inefficient, it allows most factories to reduce their energy costs significantly and to approach electrical self-sufficiency. James explained that by expanding and modernizing the co-generation equipment, the sugar factories could earn revenue by selling power back to the Jamaica Public Service (JPS) national electrical grid.

COMMENT

¶15. (U) The sugar industry has been on the verge of collapse for decades, surviving mostly on sales into the European market at guaranteed prices following the turmoil and investor flight from the industry after the GOJ imposed price controls in the 1970s. The removal of the EU price supports and the possibility of a new low in output have finally prompted the industry to begin considering significant changes. It is telling that all the remedies now being considered have been discussed regularly for the past thirty years without significant action being taken. Given the strong political support the industry continues to enjoy, it seems unlikely that Jamaica will follow the example of St. Kitts and Nevis, which is closing down its unprofitable sugar industry after this season (reftel). Instead, by shifting production to higher value-added products aimed at the domestic market, increasing automation, and turning their factories into energy profit centers, the Jamaican sugar industry hopes it can re-invent itself as a leaner, more profitable industry. However, with the continuing growth in importance of the tourism sector, Jamaica's brown gold will never again occupy the central role in the island's economy it once held. End comment.

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